

# The Evolution of the SSA Taxable Share of Payroll

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SSAB Technical Panel on Methods and Assumptions

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# Fraction of Workers with Earnings Above OASDI Taxable Maximum Has Changed Little Since 1983

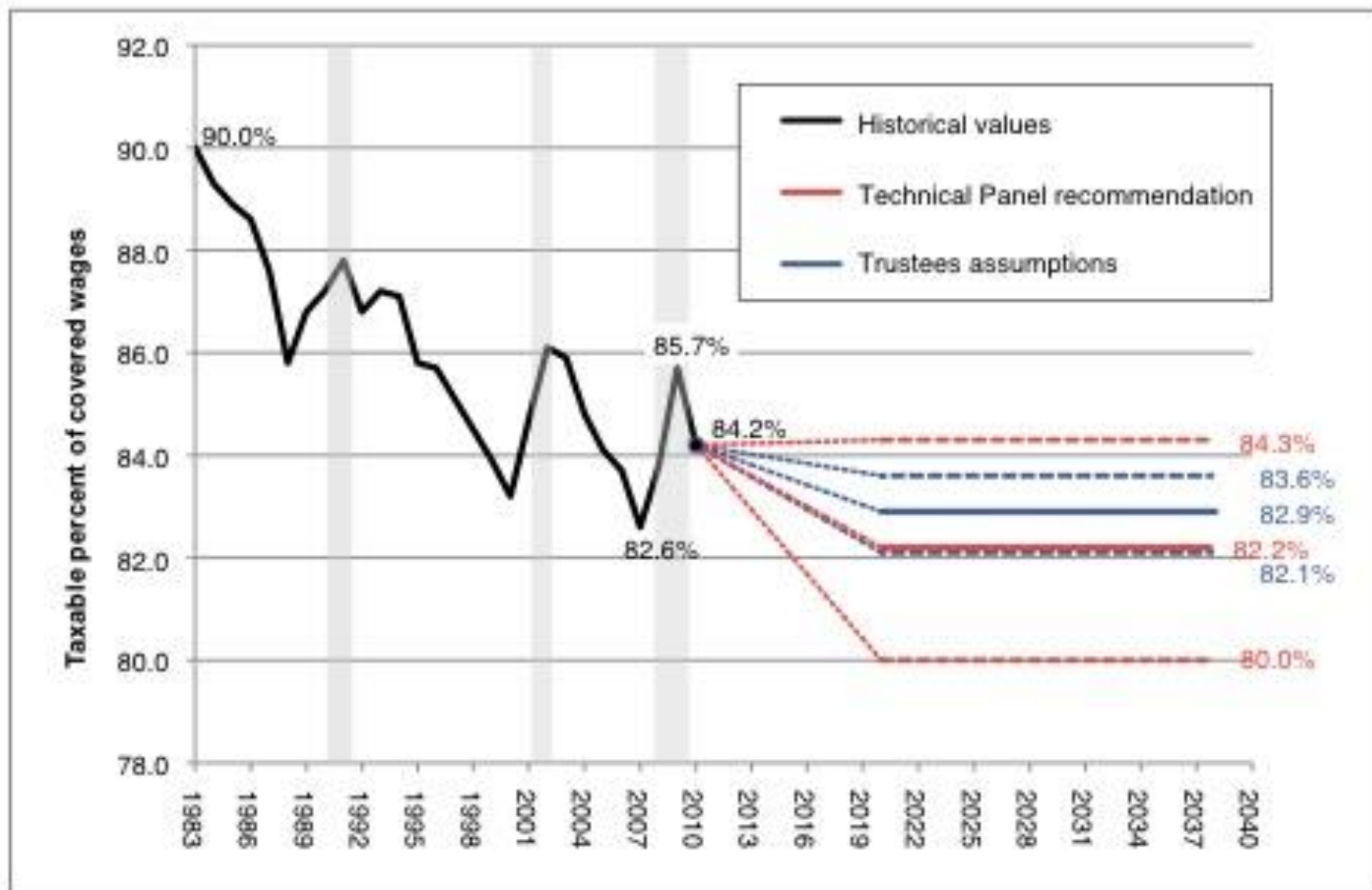
## Covered Workers with Earnings Over the Taxable Maximum in a Given Year



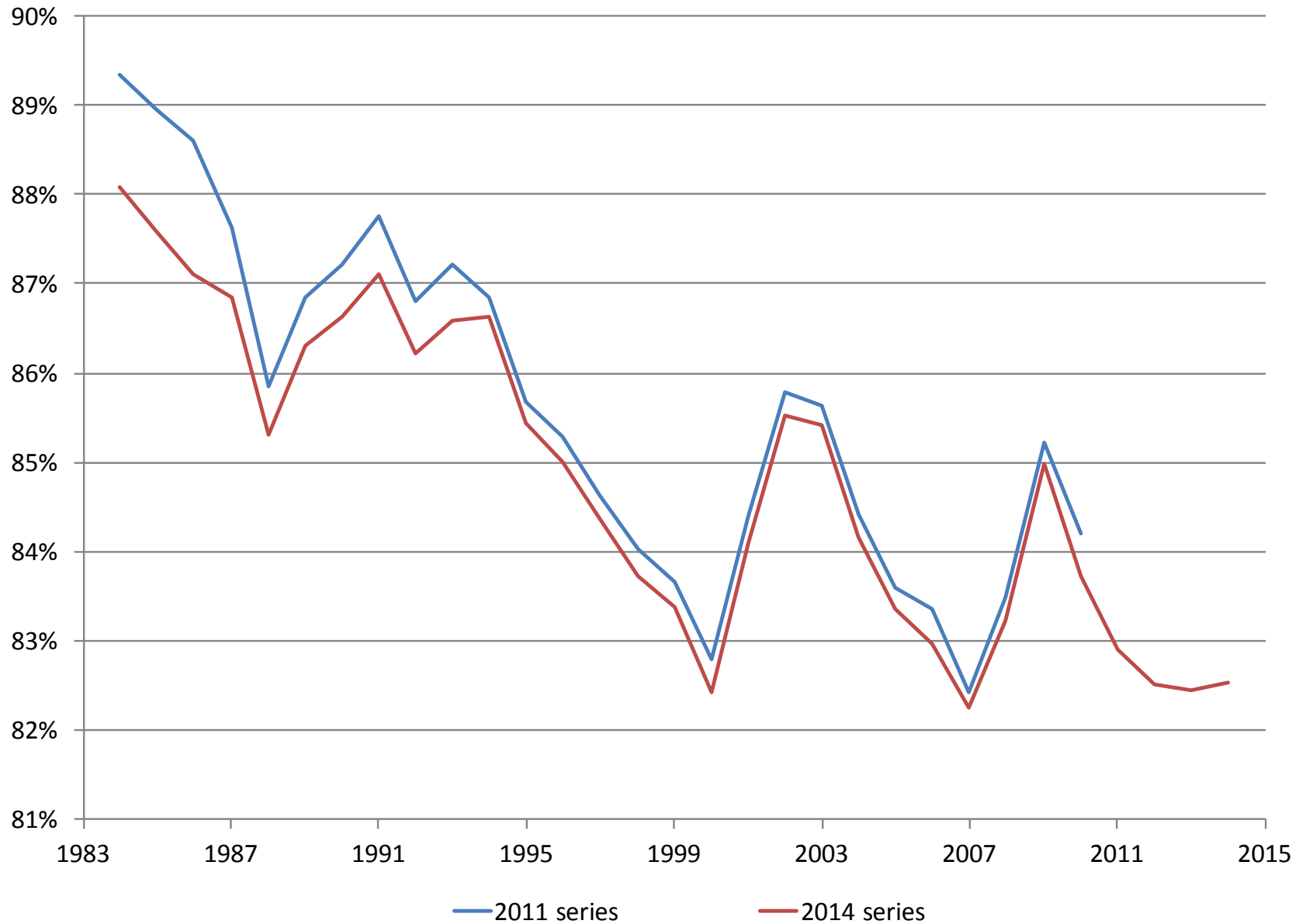
SOURCE: Social Security Administration, *Annual Statistical Supplement 2013*, Table 4.B1.

# But Share of Covered Wages Subject to Taxation has Fallen Sharply in the Same Time Interval: OASDI Trustees Report 2011

Figure 59. Historical and Projected Values of the Taxable Share of Covered Wages: 2011 Trustees Report and Technical Panel Recommendations



# It is Happening Again...



# What's Going on?

## Taxable share of payroll trending downward since 1983

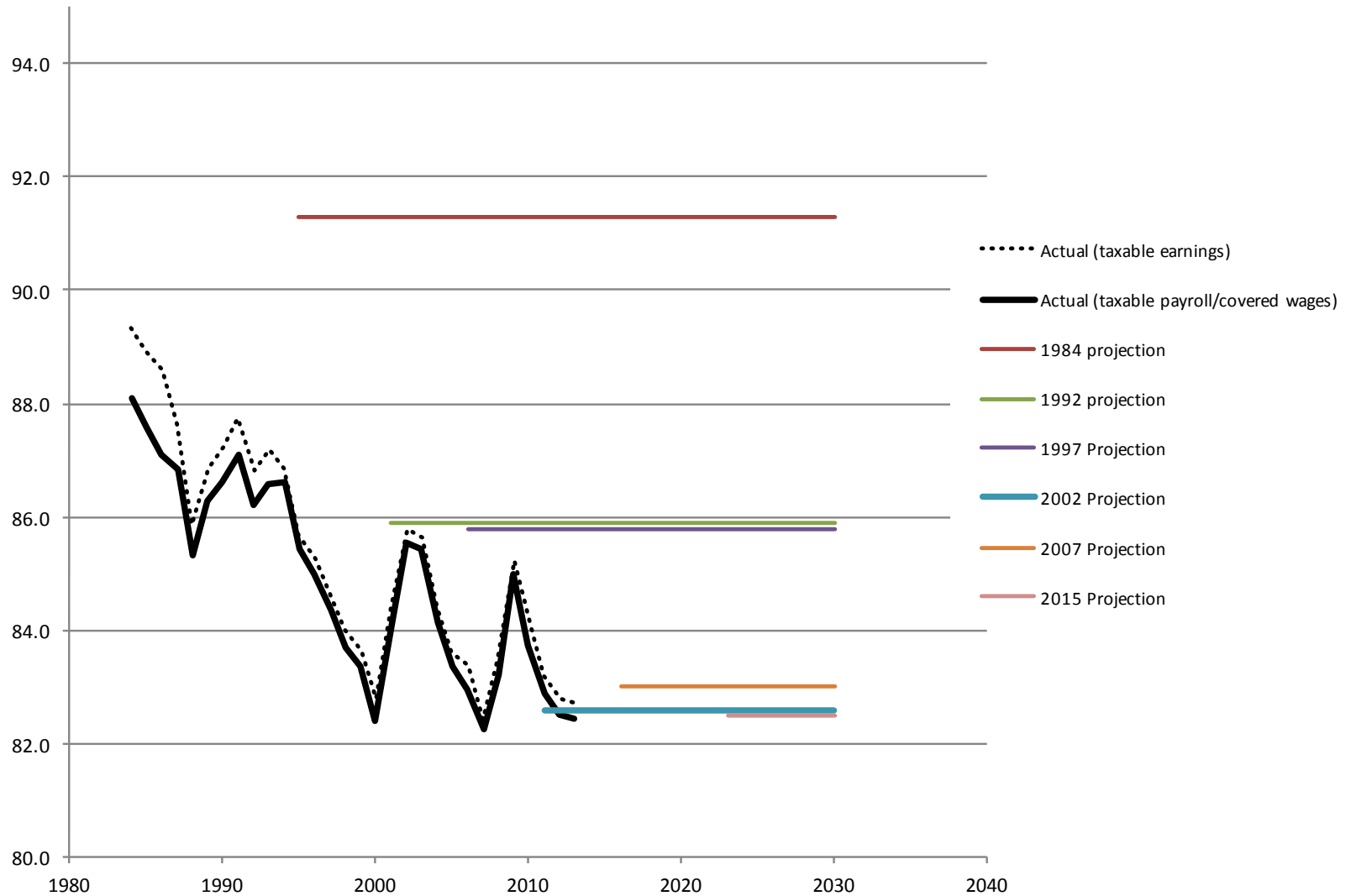
- Except during recessions and immediate aftermath
- Taxable share jumps in recessions, then resumes downward trend

## According to SSAB TP 2011

1. Approximately six percent of the covered labor force earns above the cap
2. But the share of earnings accruing to that small group has been rising rapidly the very highest earners
3. Much less important
  - Aging of the Baby Boomers into their high earnings years
  - Compositional changes, e.g., a growing foreign-born population with highly heterogeneous earnings [Cheng 2011]

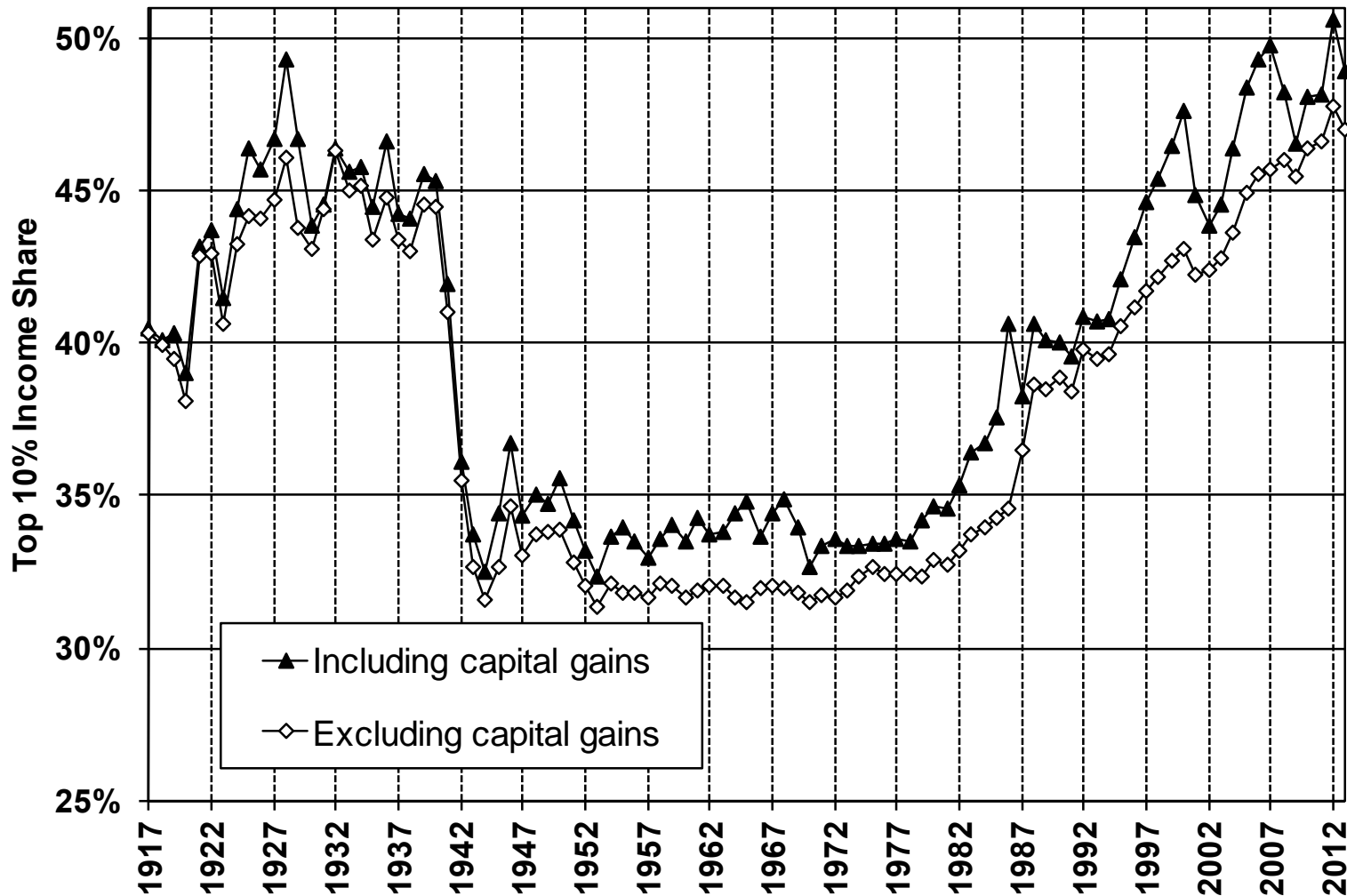
# OCACT Has Needed to Repeatedly Revise Down its Projected Taxable Ratio

Total taxable earnings as a share of total covered earnings:  
Actual versus projected (various years)



# Any Evidence that These Trends are Reversing?

## Top Decile Share of U.S. Income, 1917 – 2013

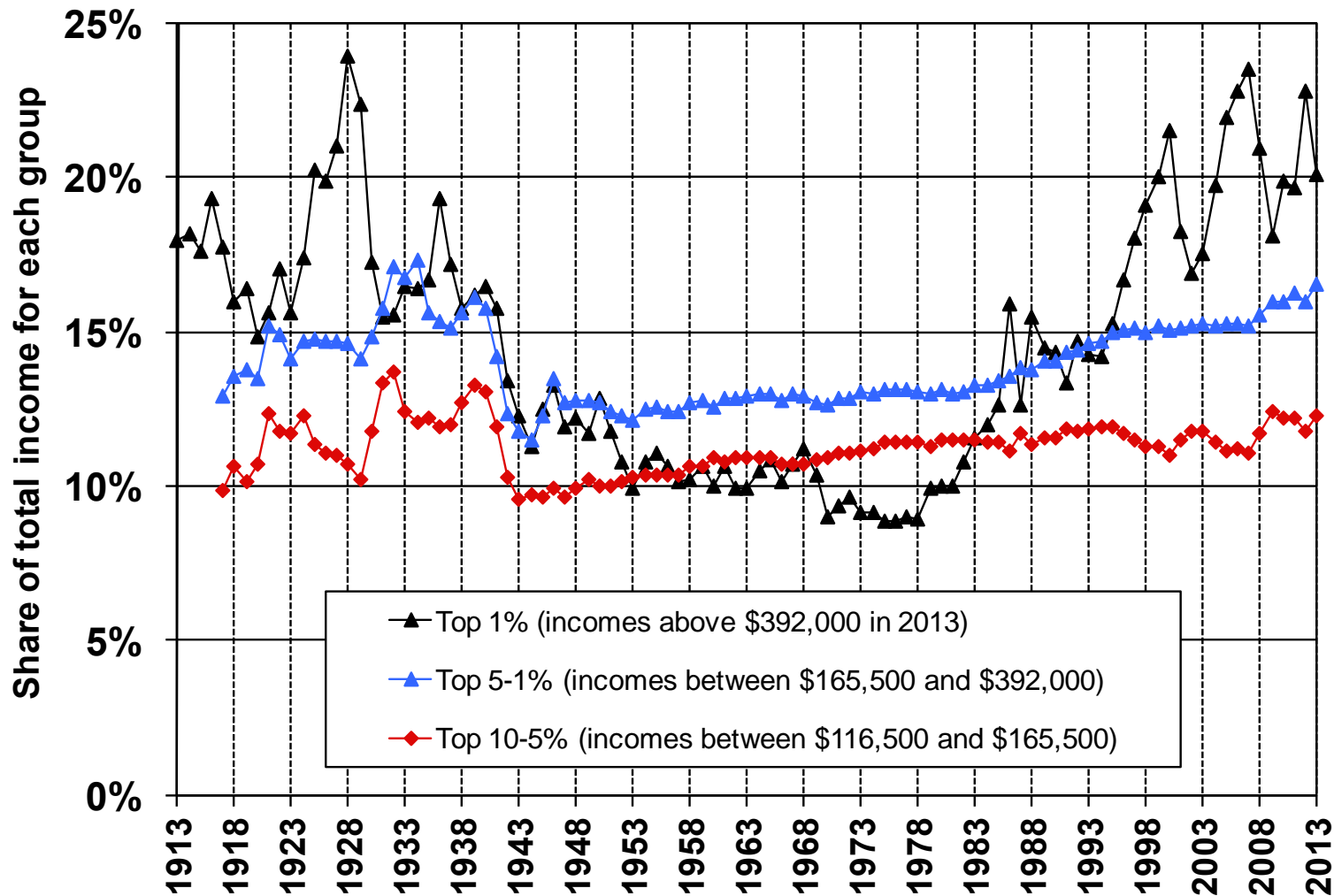


**In 2013, top decile includes all families with annual income above \$116,500.**

**In 2013, OASDI maximum taxable earnings was \$113,700**

# Any Evidence that These Trends are Reversing?

## Decomposing Top 10% into 3 Groups, 1913-2013



Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.



# 2011 Technical Panel Recommendations

- “Literature and expert judgment are sharply divided on the question of whether the earnings of the very highest earners will continue to outpace earnings at lower points in the distribution.
- “TP believes that the argument that the downward trend is likely to continue is somewhat stronger, but it does recognize that the trend is unlikely to continue indefinitely.
- “...Therefore recommend only a slightly steeper downward slope until the taxable share reaches its ultimate value, proposed at 82.2 percent, just below the 2007 value.

# 2011 Technical Panel Recommendations

- “Given that the taxable share depends heavily on earnings for a just small fraction of the labor force, it could shift quickly and markedly with changes in the policy environment.
- “TP recommends that OACT continue to monitor earnings data closely...
- “Strong consensus that the future uncertainty of earnings variability is particularly high and that the currently assumed range between the low- and high-cost bands for the taxable share is too narrow given the possibility of continued change.
- “TP encourages the Trustees to raise the prominence of earnings dispersion... given that the recent downward trend in the taxable share has contributed to deterioration in OASDI’s long-run fiscal status.